

Cambodia Integration into the World Economy and Its Trade Policy Development After the First IF Report Released in January 2002.

The last Cambodia CG meeting took place in Phnom Penh on December 6-7, 2004 and trade issues -- mainly trade facilitation and investment regulatory framework - -were not only discussed but monitoring indicators and benchmarks were agreed that is being monitored quarterly right up to the next CG meeting scheduled in March 2006. Trade facilitation and investment climate enhancements are also featuring in the successor PRSP i.e. the next five-year development plan.

The Cambodia IF report released on January 10, 2002 underscored importance of reforming its trade policy, improving the Law on Investment, reforming of land, tourism strategy, tariff restructuring and trade facilitation. The government of Cambodia has made some significant progresses in all these areas and the CG meeting in December 2004, as a part of private sector development, put some benchmarks on some critical issues need to be worked on, those included (i) improvement of trade facilitation by reducing costs and times through introducing a Customs Automation and Trade Single Window System, (ii) Private Participation in Infrastructure (iii) SME development framework, (iv) Law on Commercial Arbitration.

There has been noticeable progress since the IF was completed in Cambodia in 2002, including work that is being done for the 2004 CG Benchmarks mentioned above.

Progress since the IF was completed in Cambodia

2001

- Government reduced maximum tariff rates from 120 percent to 35 percent and reduced the number of tariff bands from 12 to 4. Structure of the 4 tariff bands are 0%, 7%, 15% and 35%, of which about 95 percent of the tariff lines are under three bands: 7%, 15% and 35%.
- Average un-weighted tariff rates were lowered to 16.5 percent from 17.3 percent in 2000 and 18.4 percent in 1997.
- Most non-trade barriers were eliminated.

2002

- The Government moved forward with its tariff restructuring program by reducing the un-weighted average tariff rate to below 15% in 2002-2003.
- The Government initiated a Triangle Economic Cooperation strategy between Cambodia, Vietnam and Lao PDR, focusing on (i) Commerce, (ii) Industry, (iii) Public works and Transportation, (iv) Tourism.

2003

- Cambodia became 147th WTO member at Cancun 5Th WTO Ministerial Conference following successful five rounds of working party negotiations with its multilateral and bilateral market partners.
- Cambodia-Canada Memorandum of Understanding signed by the two countries in March 2003 has given Cambodia, along with other least developed countries, a quota and duty free access to its markets.

2004

- The National Assembly ratified Cambodia's accession package to enter the World Trade Organization (WTO). 100 out of 107 lawmakers present raised their hands to approve the package (on August 31).
- Special Trading Agreement signed with US in 1999 expired (December 31, 2004). The agreement that the US granted Cambodia guaranteed garments exports market under special GSP and MFN.

2005

- The Tariff Relief Assistance for a Development Economy (TRADE) bill has been introduced in both the US Senate and the House Representatives. Bill would grant Cambodia and 14 other developing countries duty-free accesses to the SU Markets. It has been modeled after the Africa Growth and Opportunity Act (AGOA), which provides special access of textile and clothing exports from lesser-developed countries in Sub-Saharan Africa to the US markets. During July 2005, representatives of the Cambodian government and Garment Manufacturers Association in Cambodia lobbied the US government for passing the Tariff Relief Assistance for a Developing Economy (TRADE) bill that has been introduced in both the US senate and the House of Representatives.

Progress on 2004 CG Benchmarks:

Discussions in the CG has now matured to the point where 2004 CG agreed on benchmarks and monitoring indicators for progress on various reforms in the area of trade & private sector (covered in IF), with a quarterly review being carried out by donors & government to assess quarterly progress leading up to the next CG. The 2004 CG benchmarks include the following: (i) improvement of trade facilitation by introducing a Trade Single Window System for all transactions, together with Customs Automation, and, (ii) new framework for more competitive and transparent Private Participation in Infrastructure (iii) a new SME development framework, and (iv) Law on Commercial Arbitration.

In trade the concentration is on Trade Facilitation for reducing costs and time-spent in processing import and export transactions as well as for doing business as well as other investment regulatory improvements. This reflected the suggestions underlined in the Cambodia IF. Some of this progress is shown in reduced costs and time for export and import clearances evident in a recent survey carried out by a consulting firm. There is also progress in some commercial rules and regulations; this includes a passage of the Law on Commercial Enterprises and Company Law by the National Assembly in May and June (2005) respectively.

The draft Law on Concessions (PPI), draft law of Commercial Arbitration, draft Law of Secure Transaction and Civil Procedure Code were passed by the Council of Ministers and has been submitted to the National Assembly. Another set of laws are in earlier stages of the approval process. The sub-decree for the Law on Investment (LOI) was passed by the Council of Ministers in September, and the Council of Ministers are reviewing the Civil Code, sub-decree of Economic (Land) Concession, sub-decree of Social (Land) Concession Law, these are among a number of key laws aimed at fostering private sector development, identified as key for future expansion of exports.

The Law on Concessions promises to improve economic governance by installing greater transparency in management of state assets, including contracts and land. The LOI sub-decree would reduce uncertainty over investment procedures and approval processes, thereby instilling greater confidence on the part of investors. The Council of Ministers plans to consider an SME development framework, including a definition of SMEs to be used among all Government agencies, developed by the SME committee and in coordination and consultation with other line ministries and private sector representatives.

If the planned actions are implemented the trade and private investment regime will improve further, suggesting significant impact of the IF work. The WTO accession has helped and these other actions will encourage an expansion in private investment, exports and trade more generally, contributing to the objectives in Cambodia's new five-year plan.